

Message Text

LIMITED OFFICIAL USE

PAGE 01 LISBON 01423 01 OF 02 141456Z

53

ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00

INRE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00

SS-15 STR-01 OMB-01 CEA-01 L-02 H-02 SAM-01 CIAE-00

DODE-00 INR-07 NSAE-00 PA-01 PRS-01 COME-00 FRB-03

XMB-02 OPIC-03 LAB-04 SIL-01 PM-03 /087 W

----- 052230

O R 141340Z MAR 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 2089

INFO AMCONSUL LOURENCO MARQUES

AMCONSUL LUANDA

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 1423

E.O. 11652: N/A

TAGS: ECON, PO

SUBJECT: IMPACT OF BANK NATIONALIZATION

REFS: (A) LISBON 1404; (B) LISBON 981

SUMMARY: POLITICALLY AND ECONOMICALLY BANK NATIONALIZATION IS MAJOR STEP TO THE LEFT. IT WILL BE A BODY BLOW TO PORTUGAL'S MOST POWERFUL FAMILIES. ALTHOUGH BANKS SLATED TO RESUME OPERATIONS MARCH 15, REVERBERATIONS OF NATIONALIZATION WILL SLOW ECONOMIC ACTIVITY. BUSINESSMEN NATURALLY CONCERNED WITH THIS INFRINGEMENT ON PRIVATE SECTOR; HOWEVER, MAN IN STREET LIKELY TO REACT FAVORABLY. IMMEDIATE, DIRECT EFFECT ON FOREIGN INTERESTS WILL BE SLIGHT, GIVEN FACT FEW FOREIGN BANKS ARE ESTABLISHED IN PORTUGAL. CONTINGENCY PRESS GUIDANCE TREATS POSSIBLE EFFECTS ON U.S.-PORTUGUESE RELATIONS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 01423 01 OF 02 141456Z

1. IMPACT OF BANK NATIONALIZATION (REF (A)) AS WE SEE IT:

(A.) BANK NATIONALIZATION STRIKES BODY BLOW TO PORTUGUESE FAMILIES WHO CONTROLLED PREPONDERANT SHARE OF NATION'S WEALTH (LISBON A-60 OF AUGUST 4, 1972) AND WERE CLOSELY LINKED TO PRE-REVOLUTIONARY GOVERNMENT. BANKS WERE VITAL PART OF THEIR INDUSTRIAL AND COMMERCIAL OPERATIONS. THIS PARTICULARLY TRUE OF CUF, CHAMPALIMAUD, AND QUINA EMPIRES WHICH INCLUDED BANKS AMONG THEIR ENTERPRISES. NOMINALLY INDEPENDENT BANKS LIKE ESPIRITO SANTO AND PORTUGUESE DO ATLANTICO WERE ALSO INTEGRATED INTO BIG BUSINESS. IN THESE DAYS OF SQUEEZE ON PROFITS AND TIGHT CREDIT, BIG INDUSTRIES WERE MORE DEPENDENT THAN EVER ON BANK OPERATIONS TO SUPPLY THEM WITH FUNDS NEEDED FOR OPERATION AND GROWTH. GOVERNMENT'S NATIONALIZATION NOT ONLY REDUCES POWER OF BIG FAMILIES BUT GIVES IT TOOL TO EXERT EXTENSIVE CONTROL OF THEIR ENTERPRISES THROUGH THE CREDIT MECHANISM. BANK NATIONALIZATION GOES LONG WAY IN FULFILLING AFM PROGRAM'S PLEDGE TO ADOPT AN ANTIMONOPOLY STRATEGY AND AT SAME TIME WEAKENS ANY THREAT WHICH AFM MAY HAVE FELT THESE POWERFUL FAMILIES POSED TO THEIR REVOLUTION.

(B.) NATIONALIZATION OF BANKS GIVES PORTUGUESE ECONOMY BIG SHOVE TO LEFT, WITH LEFT-TRENDING LANGUAGE IN GOP'S ECONOMIC AND SOCIAL PROGRAM PUBLISHED FEBRUARY 21 (REF (B)) TAKING ON CONCRETE FORM. THAT PROGRAM'S EMPHASIS ON CONTINUING IMPORTANCE OF PRIVATE SECTOR IS NOW PLACED IN DOUBT AND ITS LANGUAGE CALLING FOR GRADUAL APPROACH TO MAJOR CHANGE HAS BEEN VIOLATED. BANK NATIONALIZATION IS CLEAR CUT VICTORY FOR COMMUNIST PARTY AND FOR THE BANK WORKERS' UNIONS. NATIONALIZATION AS ANNOUNCED GOES FAR BEYOND DEMANDS OF SOCIALIST PARTY BANK WORKERS WHO ONLY LAST WEEK CALLED FOR CERTAIN MODERATE INITIAL STEPS IN THE DIRECTION OF A GOVERNMENT TAKEOVER. OTHER NATIONALIZATION MAY FOLLOW. ALREADY POSTERS HAVE GONE UP IN STREETS DEMANDING NATIONALIZATION OF INSURANCE INDUSTRY.

(C.) GENERAL REACTION TO NATIONALIZATION IN PORTUGAL IS LIKELY TO BE POPULAR. SUSPICION OF BANKS, FED BY LEFTIST PROPAGANDA, HAS MOUNTED SINCE THE GOVERNMENT TAKEOVER OF BANCO INTERCONTINENTAL PORTUGUESE (BIP) LAST FALL. EVEN SMALL AND MEDIUM BUSINESSMEN, WHO HAVE LONG FELT THAT THEY WERE GETTING ONLY CRUMBS OF CREDIT FROM BIG BOYS' TABLE, ARE LIKELY TO FEEL SOME SATISFACTION. GOP PUBLICITY ON NATIONALIZATION HAS EMPHASIZED ITS ACTION NEEDED TO ASSURE THE FUNCTIONING OF LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LISBON 01423 01 OF 02 141456Z

THE BANKS AND TO PROTECT THE PEOPLE.

(D.) THE EFFECT ON BANKING OPERATIONS IS UNCERTAIN. AT THIS POINT IT IS UNKNOWN WHETHER GOVERNMENT WILL KEEP BANKS AND BANK PERSONNEL INTACT OR WHETHER IT WILL CONSOLIDATE BANKS AND PERMIT BANK WORKERS, PARTICULARLY THOSE ACTIVISTS THAT HAVE PRESSED FOR NATIONALIZATION, TO TAKE OVER BANK ADMINISTRATION. GOVERNMENT ACTION APPEARS TO HAVE BEEN PRECIPITATE, LEAVING MANY PRACTICAL QUESTIONS TO BE RESOLVED. (GOP, HOW-

EVER, HAS ANNOUNCED THAT BANKS WILL BE OPEN MARCH 15 DURING THE HOURS THAT BANKS NORMALLY OPERATE ON WEEKDAYS. WE MAY SEE THEN WHO IS IN CHARGE.)
(E.) THE EFFECT ON THE ECONOMY CAN ONLY BE GUESSED AT AND MUCH WILL DEPEND ON POLICIES AND PRACTICES GOVERNMENT ADOPTS FOLLOWING NATIONALIZATION. IT IS BOUND TO HAVE SHORT-TERM, SLOWING IMPACT ON ECONOMIC ACTIVITY, WITH DURATION OF SLOWDOWN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LISBON 01423 02 OF 02 141522Z

53

ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00

INRE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00

SS-15 STR-01 OMB-01 CEA-01 L-02 H-02 SAM-01 CIAE-00

DODE-00 INR-07 NSAE-00 PA-01 PRS-01 COME-00 FRB-03

XMB-02 OPIC-03 LAB-04 SIL-01 PM-03 /087 W

----- 052754

O R 141340Z MAR 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 2090

INFO AMCONSUL LOURENCO MARQUES

AMCONSUL LUANDA

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 1423

HINGING ON HOW FAST GOVERNMENT CAN INSPIRE CONFIDENCE OF THOSE KEEPING ECONOMY GOING. IN SHORT RUN NEITHER GOVERNMENT NOR WORKERS HAS THE CAPABILITY OF KEEPING ACTIVITY UP EVEN TO EXISTING PACE WHICH HAS BEEN SLOWED, INTER ALIA, BY UNCERTAINTY.

(F.) EFFECT ON FOREIGNERS IS LIMITED BY FACT THAT ONLY THREE FOREIGN BANKS (BRAZILIAN, FRENCH, AND BRITISH) HAVE BRANCHES OR OFFICES IN PORTUGAL. FOREIGN BUSINESSMEN WHO HAVE ACCOUNTS IN PORTUGUESE BANKS AND RECEIVE CREDIT FROM THEM ARE CONCERNED, BUT GOVERNMENT THUS FAR HAS TAKEN NO ACTION THAT WOULD AFFECT THESE OPERATIONS. BUSINESSMEN GEN-

ERALLY ARE REACTING NEGATIVELY TO THIS ATTACK
ON PRIVATE ENTERPRISE. DOUBTS OF THOSE WHO WERE ALREADY
QUESTIONING REMAINING IN PORTUGAL HAVE BEEN STRENGTHENED.

2. WE FORESEE POSSIBILITY THAT QUESTIONS RE U.S.-PORTUGUESE
RELATIONS MAY ARISE IN NOON PRESS BRIEFING AND OFFER FOLLOWING
CONTINGENCY PRESS GUIDANCE:
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 01423 02 OF 02 141522Z

A. QUESTION: WHAT EFFECT DOES NATIONALIZATION OF
PORTUGUESE BANKS HAVE ON U.S.-PORTUGUESE RELATIONS?
ANSWER: NATIONALIZATION, PER SE, HAS NO DIRECT EFFECT
ON U.S.-PORTUGUESE RELATIONS. THIS IS AN INTERNAL MATTER FOR
THE PORTUGUESE GOVERNMENT. THERE ARE NO BRANCHES OR OFFICES
OF ANY U.S. BANKS OR FINANCIAL INSTITUTIONS IN PORTUGAL.
ONLY THREE FOREIGN BANKS HAVE BRANCHES THERE (FRENCH, BRITISH,
AND BRAZILIAN) AND THESE ARE EXEMPTED FROM THE NATIONALIZATION
DECREE, ALTHOUGH IT IS REPORTED THAT THEY WILL BE SUBJECT TO
A FUTURE DECREE. AMERICAN BUSINESSES OPERATING IN PORTUGAL
HAVE ACCOUNTS IN PORTUGUESE BANKS AND RECEIVE CREDIT FROM
THEM. THERE IS NO INDICATION THAT NATIONALIZATION HAS EFFECTED
THESE OPERATIONS.

B. QUESTION: DOES THIS STEP AFFECT U.S. ECONOMIC
ASSISTANCE TO PORTUGAL IN ANY WAY?

ANSWER: AS STATED ABOVE, NATIONALIZATION OF THE BANKS IN
PORTUGAL DOES NOT HAVE ANY DIRECT EFFECT ON U.S.-PORTUGUESE
RELATIONS. SUCH NATIONALIZATION IN ITSELF SHOULD HAVE NO
BEARING ON U.S. ECONOMIC ASSISTANCE. THE ASSISTANCE ALREADY
OFFERED AND BEING DISCUSSED IS ON A GOVERNMENT-TO-GOVERNMENT
BASIS AND PORTUGUESE PRIVATE FINANCIAL INSTITUTIONS ARE NOT
DIRECTLY INVOLVED.

C. QUESTION: GRANTED THAT NATIONALIZATION SHOULD HAVE NO DIRECT
EFFECT ON U.S.-PORTUGUESE RELATIONS, WILL IT HAVE ANY INDIRECT
EFFECTS?

ANSWER: AS YOU KNOW THE SITUATION IN PORTUGAL IS SOMEWHAT
UNCERTAIN FOLLOWING THE COUP ATTEMPT ON MARCH 11. THE
NATIONALIZATION OF THE BANKS IS ONE OF THE FIRST STEPS TAKEN
BY THE NEWLY REORGANIZED GOVERNMENT. WE WILL OF COURSE
CONSIDER THE IMPORTANCE BANK NATIONALIZATION HAS IN THE CONTEXT
OF SUCCEEDING ACTIONS BY THE PORTUGUESE GOVERNMENT.
CARLUCCI

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, SOCIAL CHANGE
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: johnsorg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LISBON01423
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750090-0140
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750350/aaaabtaq.tel
Line Count: 214
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 LISBON 1404, 75 LISBON 981
Review Action: RELEASED, APPROVED
Review Authority: johnsorg
Review Comment: n/a
Review Content Flags:
Review Date: 12 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 JUN 2003 by ifshinsr>; APPROVED <08 DEC 2003 by johnsorg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IMPACT OF BANK NATIONALIZATION
TAGS: ECON, PO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006